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UTILITY COMMISSION

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March 15, 2002

Ms. Jean Jewell, Secretary
Idaho Public Utilities Commission
472 W. Washington
Boise, Idaho 83702

Re: Case No. GNR-E-02-01

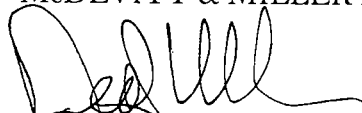
Dear Ms. Jewell:

Enclosed for filing in the above-referenced matter, please find the original and seven copies of Comments of Plummer Forest Product Inc. Also enclosed is an additional copy for return, with your file stamp thereon, to this office.

Thank you for your assistance.

Very truly yours,

McDEVITT & MILLER LLP



Dean J. Miller

DJM/sg

Encl.

ORIGINAL

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UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE INVESTIGATION)
OF THE CONTINUED REASONABLENESS) CASE NO. GNR-E-02-01
OF CURRENT SIZE LIMITATIONS FOR)
PURPA QF PUBLISHED RATE ELIGIBILITY) COMMENTS OF PLUMMER
(i.e., 1 MW) AND RESTRICTIONS ON) FOREST PRODUCTS INC.
CONTRACT LENGTH (i.e., 5 YEARS).)
)
)
)
)
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INTRODUCTION

Plummer Forest Products Inc., (“Plummer” or “PFP”) applauds and supports the Commission’s willingness to re-examine policies regarding the threshold for availability of published Qualifying Facility (QF) Rates and contract terms and conditions. By these comments Plummer urges that the threshold for availability be increased to 10MW and that contracts with a 20-year length be authorized.

PLUMMER FOREST PRODUCTS—AN OVERVIEW

Plummer Forest Products Inc. is a privately held Idaho corporation formed in 1999 to build and operate a small log sawmill in Plummer Idaho. In July of 1998 a fire destroyed the sawmill portion of the facility in Plummer and the then owner, Rayonier Corporation of Stamford, Connecticut, elected not to rebuild the sawmill and put it up for sale. The Coeur D’Alene Indian

Tribe did not want to loose industrial jobs in the community. The Tribe and PFP negotiated a lease whereby the tribe purchased the mill site and PFP agreed to build a new small log sawmill in Plummer. PFP will own the site at the end of the 10-year lease term.

When operating at full capacity, the mill produces Sixty Five Million board feet of lumber annually (using logs that previously became chip wood fiber or were burned in slash piles in the woods) and has over 80 full time employees. The sawmill operation generates 44,000 bon dry tons of bark, sawdust and shavings annually. An electric cogeneration plant with a rated capacity of 6 MW is located within the mill and is fueled by the wood waste generated by the mill and by waste purchased from other sources. Wood waste from the sawmill is used to fire a single boiler rated at 70,000 pounds per hour of 420 PSIG, 750 deg. F. steam. Steam will drive a 6,250-kW turbine generator, with 25,000 pounds per hour of turbine extraction steam being routed through the sawmill's lumber kilns. The facility is expected to produce 33,000 kWh of electricity annually.

The Facility was originally self-certified on May 4, 1983, as a Qualifying Cogeneration Facility by its original owner, Wood Power, Inc. The facility was subsequently re-self-certified by a second owner, Rayonier Corporation, on February 19, 1997. On September 20, 1999, Rayonier Corporation transferred ownership of the facility to the Coeur d'Alene Tribe. The Coeur d'Alene Tribe leased the facility on May 31, 2000, to Plummer which in turn subleased the facility to Haleywest L.L.C.

Currently, the output of the plant is being sold into the regional spot (non-firm or surplus) markets. Revenues from these sales are not sufficient to cover variable operating costs. Fixed costs such as depreciation and capital costs are not recovered at all . In the absence of a long-term

contract with rates sufficient to cover costs and reduce market volatility, PFP may be compelled to discontinue operation of the cogeneration plant in the near future and lay off employees.

In short, the Plummer cogeneration facility is precisely the type of facility PURPA was intended to promote. It reduces dependence on a single fuel source (natural gas) and is fueled by a renewable energy source. Additionally, this kind of plant mitigates environmental problems associated with disposal of wood waste.

**THE FACTUAL PREDICTION SUPPORTING
REDUCTION OF PUBLISHED RATE ELIGIBILITY AND THE SHORTENING OF
CONTRACT LENGTH HAS NOT MATERIALIZED**

From the inception of PURPA implementation efforts in Idaho in the early 1980s through 1994, projects with capacity of 10MW received rates for their generation that were published from time to time by the utilities and publicly available. Cogeneration projects obtained sales contracts with a term of 20 years.¹

In January of 1995 the Commission, sensing that long-term PURPA obligations might be incompatible with perceived emerging competition in the electric industry, reduced the eligibility for published rates to projects of 1 MW or smaller. In Order No. 25884² the rationale for this change was explained by the Commission as follows:

There is a widely held expectation that there will be increasing competition within the electric utility industry. In light of that, we believe it is especially important that the QF industry be able to demonstrate that the energy resources it offers are as cost effective as those that a utility could construct....We believe that lowering the threshold, along with adopting a least cost planning based methodology as discussed later, will help to ensure that a greater number of QF projects are cost effective by market standards before they are acquired by our utilities.

¹ In the earliest phases of PURPA implementation contracts of 35 years were authorized. See Case No. U-1500-170, Order No. 21630 (1987).

² In The Matter of the Application of Idaho Power Company for Approval of Prices for the Purchase of Electricity from Cogenerators and Small Power Producers qualifying under section 210 of the Public Utility Regulatory Policies Act of 1978. Case No. IPC-E-93-28.

In 1996, in Case No. IPC-E-95-9, Order No. 26576³, the Commission shortened cogeneration contract terms from 20 to 5 years. The rationale for this change was much the same as for reduced eligibility for published rates. The Commission explained:

Significant changes have swept through the electric industry since we last examined the issue of contract length. The FERC has mandated open access to the transmission system, thermal technologies have improved, gas prices are low, there is a considerable surplus of energy available in this region resulting in very low spot market prices for electricity and, finally, even the continued existence of PURPA is being called into question. We find that as the industry as a whole continues to transform to a more free market model, we cannot justify obligating utilities to 20-year contracts for PURPA power. As the utilities in this case note, such an obligation does not reflect the manner in which they are currently acquiring power to meet new load; through short-term (five years or less) purchases.

While Plummer recognizes this case is not the forum to debate the issue of electric utility re-structuring, the reality is that competition has not materialized in Idaho. And, as discussed below, contrary to the expectations reflected in Order No. 26576, wholesale market prices for energy reached unprecedented levels never expected in a competitive market for energy, and Idaho utilities are currently acquiring or building long term generating resources.

Moreover, the policy of the state of Idaho, as reflected by activities of the Idaho Legislature, is hostile to competition or industry restructuring. The Legislature's special Committee on Electric Utility Restructuring, created in 1996,⁴ issued two reports. In the first, published in 1997, the Committee's recommendations, in part were:

- 1. Our congressional delegation vigorously oppose further deregulation at the federal level;**
- 2. No state legislative actions be taken at this time that would encourage retail electric power restructuring.⁵**

³ In the Matter of the Application of Idaho Power Company for an Order Approving the Methodology for Avoided Cost Rate Negotiations with Qualifying Facilities Larger than 1 Megawatt.

⁴ HCR No. 2 Authorizing the Legislative Council to Appoint a Committee to Study Electric Utility Restructuring, First Regular Session of the 54th Idaho Legislature.

⁵ Interim Committee Report, 1997 (Bold in Original).

In its Final Report, the Committee referred back to its earlier recommendations and said:

“Given the crisis that has occurred in California and the lack of positive results found in other states following the deregulation pathway, this seems to be a very wise recommendation....The current system of regulated electrical utility service with cost-based power rates should be preserved to protect Idaho rate payers. Electrical deregulation will expose ratepayers to higher market-based power rates.”⁶

Further, in 2001 the Legislature adopted significant amendments to the Electric Supplier Stabilization Act,⁷ the effect of which is to make competition legally impracticable, if not impossible, in Idaho.

In 1995, based on information then available, there could have been a legitimate worry that utilities needed to be shielded from PURPA obligations in the face of emerging competition. As events have unfolded, however, it is now apparent that competition has not and will not pose a threat to the utilities’ monopoly control of generation and distribution of electricity in Idaho.

ACQUISITION OF ENERGY AND CAPACITY FROM DIVERSE SOURCES IS NOW IN THE PUBLIC INTEREST

The practical effect of Order Nos. 25884 and 26576 has been to bring to a halt the development of PURPA resources in Idaho.⁸ Recent events compel the conclusion that it is now time to adopt policies that would make independent power projects economically feasible.

In April of 2001, Avista filed with the Commission its most recent Integrated Resource Plan (IRP). In its order accepting the IRP, the Commission summarized the Staff’s analysis of the plan and noted Staff’s conclusion that “Avista’s IRP...confirms an immediate need for new generation resources and demonstrates additional needs in the not too distant future.”⁹

⁶ Final Report Legislative Council Interim Committee, 2001.

⁷ Idaho Code 61-332 et seq.; S.L. 2001, Ch. 29.

⁸ See Letter Comments of John J. Straubbar, P.E., February 27, 2002; Letter Comments of David O. Day, P.E., March 3, 2002; Letter Comments of J-U-B Engineers, March 1, 2002; E-Mail Comments of Christopher Scott Harriman, February 7, 2002.

⁹ In the Matter of the Filing by Avista Corporation DBA Avista Utilities—Washington Water Power Division (Idaho) of its 2001 Electric Integrated Resource Plan (IRP); Order No. 28884, Case No. AVU-E-01-12, October 24, 2001.

To the best of PFP's knowledge, Avista has not acquired any QF resources since 1995. Rather, it has relied on market purchases and construction of its own generation to serve its customer's needs. Each of these has its own set of problems which were manifest in Avista's most recent Power Cost Adjustment Proceeding.¹⁰ There, the Company sought and obtained a 19.4% increase (\$23m) contending that "a combination of the worst hydroelectric conditions in 73 years and unprecedented high wholesale market prices and volatility have created the necessity for prompt rate relief..." Avista's application and testimony in that case clearly illustrates the risks of a hydro-based utility relying on short-term wholesale markets. Acquisition of longer term QF capacity would mitigate those kinds of risks and would provide greater price/rate stability.

In the same case it was disclosed that without immediate rate relief the Company did not have the financial ability to complete construction of Coyote Springs II, a 280 MW natural gas generating station needed to meet the deficits identified in the Company's IRP. Notwithstanding the acknowledged hardship to customers, the Commission had little choice but to approve the surcharge and to, in one sense, require ratepayer pre-funding of that investment. A reasonable program of PURPA acquisitions would help prevent recurrence of that unpleasant experience and offer smaller cogeneration projects the same opportunity for financing and development.

OTHER DESIRABLE REFORMS

Although the issues identified for consideration in the proceeding are limited to eligibility for published rates and contract length, the Commission should consider expanding the scope of the proceeding to consider other related changes. These would include:

Jettison the IRP Methodology for Larger Projects. Currently, there are two methodologies for determining avoided cost rates. Smaller projects receive rates based on a Surrogate Avoided

¹⁰Order No. 28884, Case No. AVU-E-01-12, October 24, 2001.

Resource which, for the present, is a gas fired, combined cycle combustion turbine.¹¹ For larger projects that avoided cost of a QF project is determined as the cost which the utility would avoid if it purchased power from the QF, rather than acquiring the same power from the resources selected in its base case IRP resource plan.¹²

The IRP methodology has proven to be exceedingly cumbersome as it is dependent on multiple computer runs of IRP models, the results of which are largely inscrutable to a third party. Moreover, both Idaho Power Company¹³ and Avista have recently constructed gas turbine generating facilities. There is now, therefore, direct and relatively easily obtainable information about the cost of utility generation that could be avoided by QF purchases. The actual cost of the utilities' own addition of new generating capacity is the best evidence of avoided cost.

Simplify the SAR Methodology. In Order No. 25884 the Commission approved two SAR methodologies, one for "fueled" projects and one for "non-fueled" projects. The Commission has recently clarified the original intent of Order No. 25884, stating, "By way of clarification, we find that the Commission's intent in that Order was to use 'non-fueled' to mean non-fossil fueled projects and 'fueled' to mean fossil fueled projects."¹⁴ While Order No. 28945 clarified the Commission's intent as it existed in 1995, it did not preclude a fresh look at whether the distinction between fueled and non-fueled is sensible today.

Parity of Cost Recovery for non-utility generation. Avista has recently proposed that costs associated with its Coyote Springs II generating facility be recovered through its Power Cost

¹¹In the Matter of the Application of Avista Corporation DBA Avista Utilities—Washington Water Power Division (Idaho) for Authority to Revise Electric Tariff Schedule 66—Temporary Power Cost Adjustment—Idaho and to Implement a Related Surcharge; Order No. 25884, Case No. IPC-E-93-28.

¹² Order No. 26576, Case No. IPC-E-95-9.

¹³ In the Matter of the Application of Idaho Power Company for an Accounting Order Authorizing the Inclusion of Power Supply Expenses Associated with the Purchase of Capacity and Energy from Garnet Energy LLC, in the Company's Power Cost Adjustment, Case No. IPC-E-01-42.

¹⁴ Order No. 28945. In the Matter of the Petition of Idaho Power Company for a Declaratory Order Concerning Entitlement to Published Rates for Non-fueled Small Power Production Facilities, Case No. IPC-E-01-37.

Adjustment Mechanism.¹⁵ Although the Commission deferred decision on this request until the plant is completed, what ever cost recovery method is approved for utility owned generation should also be afforded non-utility generation


Consideration of these additional topics should not, however, delay implementation of the primary reforms. Changing eligibility for published rates and contract length are positive, straight-forward steps that should be taken now in view of the growing uncertainty regarding reliable supplies of energy at reasonable costs.

CONCLUSION

Plummer again thanks the Commission for its willingness to examine these issues and Plummer urges the Commission to adopt the suggestions set forth above.

Dated this 15th day of March, 2002.

McDevitt & Miller LLP


Dean J. Miller

¹⁵ In the Matter of the Petition of Avista Corporation DBA Avista Utilities—Washington Water Power Division (Idaho) for Proposed Modifications to the Power Cost Adjustment Methodology, Case NO. AVU-E-01-10, Order No. 28775.

CERTIFICATE OF SERVICE

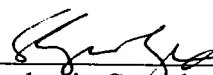
I hereby certify that on the 15th day of March, 2002, true and correct copies of the foregoing COMMENTS OF PLUMMER FOREST PRODUCTS INC. were forwarded, by U.S. Mail, postage prepaid, to the following:

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